

CEO's Message

HOW ABOUT SOME TAKE-OUT?

Take-out ... a word often heard in a New York delicatessen or a Chinese restaurant meaning,



“a store, restaurant, or counter specializing in preparing food meant to be carried out for consumption elsewhere” but in insurance, it's a business strategy that saves millions of dollars for New York Limited Assignment Distribution (LAD) clients every year.

In 2006, AutoOne guaranteed our New York clients Take-out credits covering 40% of their quota share. This effectively lowered the LAD buy-out fee in New York by 4 points.

Through effective and persistent pursuit of Take-out credits, we are now able to apply credits covering **90% of our client's quota for 2006.**

This results in an effective rate **9 points below** the original LAD fee.

As the voluntary market in New York grows larger and more competitive, loss ratios for Assigned Risk business will only deteriorate. LAD fees will increase reflecting the poorer results. With these dark financial clouds, AutoOne offers a silver lining!

The Plan size in New York has been reduced by voluntary market actions but also by the outstanding efforts of AutoOne in the Take-out credit area. In the last three years, AutoOne has applied more than \$500 million of Take-out credits contributing to the reduction of the Plan size by almost 75%. Our actions have directly and indirectly benefited our clients!

For 2007, we will again offer our clients Take-out credit guarantees which will create a very attractive rate for those diminished quota premiums. The initial LAD fee may seem “higher” but your

CEO's Message1
How About Some Take-out?

Assigned Risk Services 2
Knowledge is Power

Actuarial 3
NY AIP Experience Trend Update

SIU 4
SIU Supports State Agencies' Investigations, Saving Millions

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(Cont'd from cover)

bottom-line expense will be less because of AutoOne's Take-out credit guarantee which also helps to reduce Plan size.

As the CEO of this company, I am proud of the ingenuity of our employees in the promulgating of and the executing upon strategies that furnish our clients with creative, cost-effective solutions for their New York Assigned Risk quotas.

As always, should you have any questions, please do not hesitate to let us know. We look forward to another successful marketing season.

Take-out anyone?

*~Carey D. Benson
President & CEO*

assigned risk services

KNOWLEDGE IS POWER

The AutoOne Assigned Risk Services department has made a difference in the marketplace by serving as a liaison with Plan managers and Plan staff for many of our clients. We often hear from frustrated product managers about complex issues with a particular Plan office or how they received assignments even though they signed a LAD agreement with AutoOne. With just one call to us, we can advise you on how to handle the assignment, take on the responsibility of contacting the Plan staff and ensure they promptly reassess the application to us.

We also make a difference by attending Plan meetings in the states we serve. The knowledge and information gained from these meetings has proved helpful to our clients and allows us to alert them to changes in their states of interest that affect their quota size and ultimately their LAD and CLAD fees.

Why should I buy-out of my quota? It eliminates uncertainty in budgeting for the impact of Assigned Risk business for your company... real dollars you can see. But there are many hidden costs that divert valuable resources from your core business when you don't buy-out.

Claims:

- Retraining for different forms used in Plan business;
- Beefing up the SIU staff to identify and resist fraud.

Underwriting:

- The need for a special Assigned Risk unit with different procedures and rate pursuit activities.

Systems:

- Development and maintenance of unique policy administration programs to comply with Plan rules and procedures in each state.

Actuarial:

- The need for dedicated personnel assigned to the unique reporting of Assigned Risk data to statistical agents or regulatory authorities.

Don't divert valuable resources from your core business initiatives. Our focus on the residual market makes AutoOne the resource for clients, large and small, when Assigned Risk issues 'intrude' on their core business.

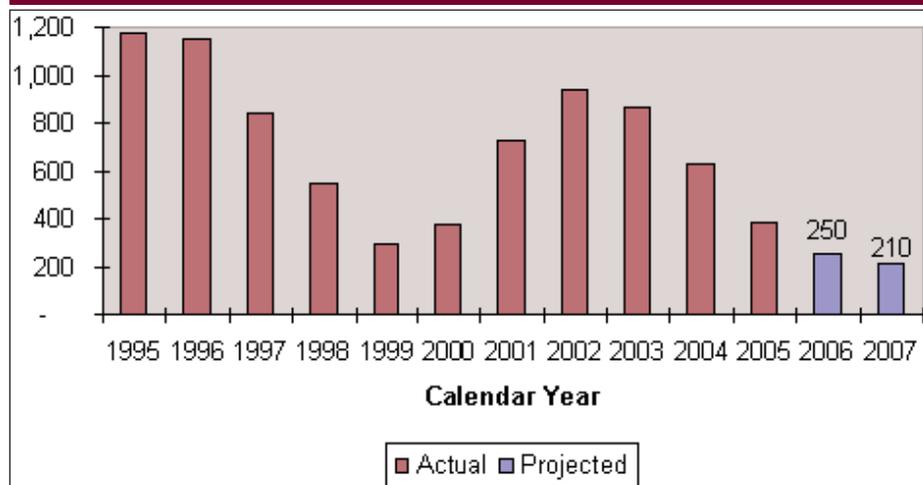
*~Pete Treutlein
Director, Assigned Risk Services*

actuarial

NEW YORK AIP EXPERIENCE TREND UPDATE

In our last newsletter, we observed that as Assigned Risk plan volumes continue to become much smaller, loss ratios would deteriorate as the 'worst of the worst' risks remain in the Plan. With voluntary carriers taking out 'better' policies and writing them in their highly segmented multi-tiered programs, it is logical to conclude that the combined ratio on what remains in the Plan will begin to deteriorate. This effect is compounded as Plan size gets to increasingly smaller levels. In New York, we continue to see significant decline in new application volumes through July 2006. The following chart shows our latest projections for NYAIP premium volume through 2007:

TABLE 1.1 : NYAIP PREMIUM VOLUME 1995-2007
(premium in millions)



Significant declines in new applications are being observed across all regions in the State relative to 2005, and inforce policy counts are nearing their all-time historic low levels at less than 150,000. Even if the decline in applications and inforce policies begins to flatten later in the year, NYAIP volume for 2006 does not look like it will exceed \$250M. For next year, we do not see a significant change in voluntary market activity that would halt the decline in depopulation, at least for the first half of the year. This should result in continued declines in NYAIP volume, but likely at a smaller pace than we are seeing this year. Our current estimate for Plan volume in 2007 is \$210M.

What does this mean for LAD pricing? In New York, and almost all other Assigned Risk markets, loss ratios have already started to deteriorate rapidly in 2006 relative to 2004 data upon which current rate indications are based. We are seeing dramatic increases in claim frequency and shifts in mix toward drivers with less experience (in particular to those with less than 1 year of experience) and to territories which have experienced overall rate decreases in the last two years. PIP claim frequency in Suffolk County has more than doubled in 2006 relative to 2004, while at the same time, average premiums have declined in the last two years. Overall, we

continue to expect that as voluntary carriers apply their more sophisticated credit-based models to the non-standard market, the better segments of the AIP population will continue to move to the voluntary market. In addition, the population of risks remaining in the Plan may be more likely candidates for rate evasion (for example, a Bronx insured using a Suffolk address), leading to further rate inadequacies and pressure on the combined ratio.

For the near-term going into 2007, we expect LAD rates will rise, but this will be at least partially offset by a much smaller AIP Plan in nearly all states. There is still uncertainty over how long it will take for voluntary carriers to begin to pull back from the core non-standard risks that really do belong in the AIP. It will likely take at least 2-3 years for the emerging trends observed in 2006 AIP data to work themselves through to ratemaking information and result in a correction to rate levels that are becoming clearly more inadequate.

~Ben Walden
VP, Chief Actuary





Questions? Contact Us.

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special investigative units

SIU SUPPORTS STATE AGENCIES, SAVING MILLIONS

AutoOne, in partnership with the NY State Police, NY State Insurance Frauds Bureau and NICB, have successfully indicted 37 Westchester County medical doctors and clinics. The indictments came as a result of a three year joint investigation. Through the establishment of various industry partnerships, including membership in the National Insurance Crime Bureau (NICB) and participation as one of only six insurers in their New York Medical Fraud Task Force, AutoOne has demonstrated a desire to work collaboratively to achieve results.

This scheme to defraud allegedly involved systematic fraudulent billing of more than \$12 million dollars related to No-fault accident claims from numerous medical mills operating in Westchester and Bronx counties. To date, 31 individuals have been convicted.

Through the utilization of information developed through the criminal case, AutoOne has effectively applied this evidence to our claim handling arena and gained discontinuances of more than \$250,000 in pending No-fault litigation.

With the goal of driving the most effective claim results, AutoOne and our SIU department remain committed through allocation of resources and participation in large scale investigations with a continuing focus on anti-fraud initiatives and as an industry leader in combating insurance fraud.

*~Harvey Aloni
AVP, SIU*